MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1 2015/2016

BAC1634 – FINANCIAL ACCOUNTING & REPORTING 1

(All Sections / Groups)

13 OCTOBER 2015
2.30PM – 5.30PM
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **7** pages with 5 Question only.

2. Answer **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write your answers in the Answer Booklet provided.

QUESTION 1

a) Topaz Bhd's current year end is 31 March 2015. Its financial statements were authorised for issue by its directors on 6 May 2015 and the AGM (annual general meeting) will be held on 3 June 2015. The following matters have been brought to your attention:

i. On 12 April 2015, a fire completely destroyed the company's largest warehouse and the inventory it contained. The carrying amounts of the warehouse and the inventory were RM10 million and RM6 million respectively. It appears that the company has not updated the value of its insurance cover and only expects to be able to recover a maximum of RM9 million from its insurance. Topaz Bhd's trading operations have been severely disrupted since the fire and it expects large trading losses for some time to come.

(4 marks)

ii. A single class of inventory held at another warehouse was valued at its cost of RM460,000 at 31 March 2015. In April 2015 70% of this inventory was sold for RM280,000 on which Topaz Bhd's sales staff earned a commission of 15% of the selling price.

(3 marks)

iii. On 18 May 2015 the government announced tax changes which have the effect of increasing Topaz Bhd's deferred tax liability by RM650,000 as at 31 March 2015.

(3 marks)

Note: assume all items are material and are independent of each other.

Required:

Explain the required treatment of the items (i) to (iii) by Topaz Bhd in its financial statement for the year ended 31 March 2015 in accordance to MFRS110.

b) Financial statements identify position, performance and changes in position over a period of time. The main statements include Statement of Financial Position, Statement of Comprehensive Income and Statement of Cash Flows. These statements are intended to show how well a company has performed and give an indication of the value of the business. However, many accountants feel that the financial statements are limited in their value to the users of financial statements.

Required:

Identify and discuss five limitations of financial statements.

(10 marks)

(Total: 20 marks)

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QUESTION 2

The following list of account balances has been prepared by Polymer Bhd, plastics manufacturers, on 31 May 2015, which is the end of the company's accounting period:

	RM		RM
Purchases – raw materials	750,600		
Carriage inwards – raw materials	10,500		
Manufacturing wages	250,000		
Manufacturing overheads	125,000		
Cash	5,120		
Sales			1,526,750
Administrative expenses	158,100		
Selling and distribution expenses	116,800		
Legal and professional expenses	54,100		
Allowance for receivables – 31 May 2015			5,750
Authorised and issued 300,000 ordinary shares of RM1 each, fully paid			300,000
100,000 8.4% cumulative preference shares of RM1 each, fully paid			100,000
Revaluation surplus			50,000
Share premium reserve			100,000
General reserve			50,000
Retained earnings – 31 May 2014			283,500
Patents and trademarks	215,500		
Freehold land at cost	250,000		
Leasehold property at cost	75,000		
Amortisation of leasehold property – 31 May 2014			15,000
Factory plant and equipment at cost	150,000		
Accumulated depreciation – plant and equipment – 31 May 2014			68,500
Furniture and fixtures at cost	50,000		
Accumulated depreciation – furniture and fixtures – 31 May 2014			15,750
Motor vehicles at cost	75,000		
Accumulated depreciation – motor vehicles – 31 May 2014			25,000
10% loan notes			100,000
Trade receivables/ trade payables	177,630		97,500
Bank overdraft			51,250
Inventories – raw materials at cost – 31 May 2014	108,400		
Inventories- work in progress – 31 May 2014	32,750		
Inventories – finished goods – 31 May 2014	184,500		
	2,789,000		**2,789,000**

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Additional information:

a) Inventories at 31 May 2015 were:

	RM
Raw materials	112,600
Finished goods	275,350
Work in progress	37,800

b) Depreciation for the year is to be charged as follows:

- Plant and equipment 8% on cost – charged to production
- Furniture and fixtures 10% on cost – charged to administration
- Motor vehicles 20% on reducing value – 25% charged to administration and 75% charged to selling and distribution
- Leasehold property 2% on cost – charged to administration

c) Financial, legal and professional expenses include solicitors' fees for purchase of freehold land during year amounting to RM5,000.

d) Provision is to be made for a full year's interest on the loan notes.

e) Income tax on the profits for the year is estimated at RM40,000 and is due for payment on 28 February 2016.

Required

From the information given above, prepare the income statement of Polymer Bhd for the year to 31 May 2015 and a statement of financial position at that date for publication in accordance with MFRS101.

(Total: 20 marks)

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QUESTION 3

a) Explain the implication for each of the following accounting concepts on the preparation of financial statements:

i. Going concern

(4 marks)

ii. Materiality

(4 marks)

b) Garcinia Bhd is preparing its financial statements for the year ended 30 September 2014. The following matters are all outstanding at the year end.

i. Garcinia Bhd's sales director, who was dismissed on 15 September 2014, has lodged a claim for RM150,000 for unfair dismissal. Garcinia Bhd's legal advisors believe that there is no case to answer and therefore think it is unlikely that this claim will succeed.

ii. Garcinia Bhd is facing litigation for damages from a customer for the supply of faulty goods on 1 September 2014. The claim which is for RM750,000 was received on 15 October 2014. Garcinia Bhd's legal advisors consider that Garcinia Bhd is liable and that it is likely that this claim will succeed. On 25 October 2014 the company sent a counter-claim to its supplier for RM600,000. Garcinia Bhd's legal advisors are unsure whether or not this claim will succeed.

iii. On 15 September 2014 Garcinia Bhd announced in the press that it is to close one of its divisions in January 2015. A detailed closure plan is in place and the costs of closure are reliably estimated at RM450,000 including RM75,000 for staff relocation.

iv. Although Garcinia Bhd has no legal obligation to do so, it has habitually operated a policy of allowing customers to return goods within 28 days, even where those goods are not fully faulty. Garcinia estimates that such returns usually amount to 1% of sales. Sales in September 2014 were RM600,000. By the end of September 2014 goods for RM5,250 had been returned.

Required:

For each of the above situation, discuss whether Garcinia Bhd has to make a provision in accordance to the MFRS 137: Provisions, contingent liabilities and contingent assets.

(12 marks)
(Total: 20 Marks)

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QUESTION 4

a) Discuss why it is important that substance rather than legal form is used to account for transaction and how financial statements can be adversely affected if the substance of transactions is not recorded.

(6 marks)

b) Discuss the differences between finance lease and operating lease.

(6 marks)

c) On 1 January 2015, Mesra Bhd entered into an agreement to lease a boat. The fair of the boat was RM180,000 and the term of the lease was four years. Annual lease payments of RM50,000 are payable in advanced. The interest rate implicit in the lease is 7.5%. Mesra Bhd is responsible for insuring and maintaining the boat throughout the term of the lease.

Required:

Show how this lease would be presented in the income statement of Mesra Bhd for the year ended 31 December 2015 and the statement of financial position as at that date based on MFRS117. Detailed disclosure notes are not required.

(8 marks)

(Total: 20 Marks)

QUESTION 5

Glory Enterprise has a number of motor vehicles and machinery. An extract from its Statement of Financial Position as at 31 December 2014 showed the following:

Assets	Date of Purchased	Cost (RM)
Motor vehicle A	1 July 2012	65,000
Motor Vehicle B	10 October 2013	45,000
Motor Vehicle C	25 July 2013	85,000
Machinery	30 November 2010	90,000

During the year ended 31 December 2015, the following transactions took place:

i. On 12 April 2015, motor vehicle A met with an accident and had to be written-off. The company received a cheque from the insurance company as compensation. The profit on disposal of this asset was calculated at RM1,000.

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ii. On 1 May 2015, the company traded-in the old machinery for a new machinery imported from Germany costing RM85,000. The import duty and installation charges incurred upon acquisition of the new machinery was RM15,000 and RM5,000 respectively. The trade-in value of the old machinery was RM10,000 and the balance was settled by cheque.

iii. On 25 October 2015, motor vehicle B was traded-in for a new motor vehicle D. The cost of the new vehicle was RM96,000 whilst the fair market value of the old asset was RM20,000. Glory Enterprise paid 25% of the cost of the asset as a deposit and the balance to be paid by instalments over the period of four years.

It is the business policy to depreciate the assets as follows:

a) Motor vehicles at 10% per annum on reducing balance method on yearly basis. A full year depreciation is charged in the year of purchase and none in the year of disposal.

b) Machinery at 20% per annum on cost on monthly basis.

Required:

i. Prepare the following accounts for the year ended 31 December 2015:

a) Motor vehicle and machinery accounts

b) Disposal of motor vehicle and machinery accounts

(6 marks)

ii. Prepare a statement of financial position extract as at 31 December 2015.

(12 marks)

(2 marks)

(Total: 20 Marks)

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